

## **EXHIBIT EEE**

9/14/2016

Is MGT About To Receive A Big Settlement? - MGT Capital Investments Inc (NYSEMKT:MGT) | Seeking Alpha

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## Is MGT About To Receive A Big Settlement?

Apr. 11, 2013 4:36 AM ET 21 comments

by: John H. Ford

MGT Capital Investments (NYSEMKT:MGT) is suing the following five companies for patent infringement: MGM Resorts International (NYSE:MGM), Caesars Entertainment Corporation (NASDAQ:CZR), Penn National Gaming (NASDAQ:PENN), WMS Industries (NYSE:WMS-OLD), and Aruze Gaming. Potential settlements exceed \$4 billion, a big number considering that MGT is only valued at \$16 million.

Given the huge increase in MGT's recent trading volume, I'm speculating that settlement negotiations are occurring with one of the defendants, WMS Industries. If that is true, MGT's share price could double within the next couple of weeks.

### Something's brewing with MGT

MGT's share price has been languishing in the low \$3 range, but last week, something happened that caught my attention. MGT's volume increased to 341,000 shares as compared to the previous week where just 44,000 shares traded. Last Monday 674,000 shares were traded and the stock was up over 20%.

I called the company in order to gain some clarity, but I received a message which basically said "no comment." I actually take that as a good sign because in my experience, when patent litigation companies won't speak to me, there is often something going on.

### Why I think settlement negotiations are taking place

WMS Industries recently received a buyout offer from Scientific Games (NASDAQ:SGMS). The offer was for \$1.5 billion, a 59% premium. This was a significant price, at 7 times EBITDA earnings which is higher than rivals IGTs (NYSE:IGT) multiple of 5.3 and Bally's (NYSE:BYI) multiple of 6.6 EBITDA earnings.

Would Scientific Games offer WMS a 59% premium if the MGT lawsuit was not going to be settled before the deal was finalized? In my opinion, no. I don't believe Scientific Games would take on the risk of a potential \$1 billion lawsuit while paying such a large premium for WMS. From my perspective, it appears that WMS and MGT will need to negotiate a settlement before the Scientific Games/WMS deal can be concluded.

The WMS/Scientific Games deal is supposed to be finalized before the end of this year, and in my opinion, one of the first items that need to be dealt with would be the MGT lawsuit.

The next question becomes, how much could MGT expect to receive from WMS? First let's take a look at the entire group of defendants, and what the potential settlements could generate for MGT.

### A total victory for MGT would be mind-boggling for shareholders

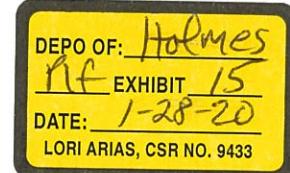
If MGT prevails over all defendants, the numbers are huge. According to a MGT investor presentation, the company estimates the present value of the royalties over the life of the patent to range between \$330 million and \$4.5 billion. Even a minor victory would translate into major share price appreciation for MGT shareholders.

For example, take a look at the numbers, based on MGT's lowest settlement estimate, \$330 million. With MGT's 55% interest in the IP, the company would retain \$181.5 million. After paying legal fees of approximately 30%, this would leave MGT with \$127 million. The company has \$21 million in carry forward tax losses, which would make the taxable amount, \$106 million. At a 30% tax rate, MGT's liability would be \$31.8 million. With a \$330 million settlement, MGT should walk away with \$95.2 million. If all warrants and preferred shares were converted to common shares, the fully diluted share count would be 8.6 million, which would give MGT \$11 per share in cash. If MGT were to win settlements approaching the \$4.5 billion estimate, MGT's cash value per share becomes astronomical compared to today's share price.

What makes these numbers so high is MGT's incredibly low fully converted share count of just 8.6 million shares. As a point of reference, Vringo (VRNG), has over 100 million shares outstanding, and VirnetX (NYSEMKT:VHC), has over 50 million shares.

### MGT is seeking treble damages

<http://seekingalpha.com/article/1333911-is-mgt-about-to-receive-a-big-settlement>



9/14/2016

Is MGT About To Receive A Big Settlement? - MGT Capital Investments Inc (NYSEMKT:MGT) | Seeking Alpha

All of my calculations have intentionally left out an important component, which is the fact that MGT stated in a press release that it is seeking treble damages. What's significant here is not so much whether or not MGT will actually get treble damages, but that this added element could make the defendants more willing to settle. Treble damages implies willful infringement, and in my opinion, this puts even more pressure on WMS to settle with MGT. I cannot imagine Scientific Games taking on the additional risk of treble damages.

#### How much is the WMS lawsuit worth?

MGT names six slot machines in its lawsuit. WMS manufactures five.

- **Battleship - WMS**
- **Clue - WMS**
- **Pirate Battle - WMS**
- **Reel'em In Compete to Win - WMS**
- **Great and Powerful Oz - WMS**
- **Paradise fishing - Aruze**

From this perspective, it appears WMS is by far the largest defendant and could ultimately provide MGT with up to 50% of the total settlement fees received from all defendants. If we take the median settlement number of \$2.4 billion and apply 50% to WMS, that puts the potential WMS liability at \$1.2 billion, close to the Scientific Games buyout price.

But let's say I am wrong, and WMS would only be responsible for 15% of the median settlement fee, that could still give MGT a WMS settlement of \$360 million. That is not a figure that Scientific Games can ignore.

#### MGT should have bargaining power

If I am correct, and WMS needs to settle with MGT before the Scientific Games deal can be completed, MGT is in a very strong bargaining position. I assume WMS doesn't want to walk away from a \$1.5 billion offer, so the company should be highly motivated to negotiate with MGT, and possibly with terms very favorable to MGT.

#### How much will the WMS settlement add to the MGT shareprice?

It won't take much of a settlement to significantly move the MGT share price given its low market capitalization. Even though WMS could potentially be on the hook for over \$1 billion, for my estimates, I am going to keep the settlement figures extremely low.

- **Scenario number 1:** \$20 million net. This would equal \$2.32 in cash, based on 8.6 million fully diluted shares. Shareprice estimate: \$6-\$10.
- **Scenario number 2:** \$50 million net. This would equal \$5.81 in cash. Shareprice estimate: \$10-\$15.
- **Scenario Number 3:** \$100 million net. This would equal \$11.62 in cash. Shareprice estimate: \$15-\$20.

While these figures are relatively low compared to the potential of a full-blown court trial, any of these settlement figures would benefit both companies. MGT would benefit because a settlement would make it easier to prosecute the other defendants. If WMS needs a MGT settlement in order to complete the Scientific Games deal, a settlement will be extremely important.

When you consider that the WMS/Scientific Games deal is worth \$1.5 billion, even a \$100 million settlement would be a mere drop in the bucket for WMS. No matter how you look at it, the Scientific Games deal provides more liquidity for WMS, which in turn should help MGT receive a healthy settlement.

#### Patent validation should more than double MGT shareprice

In many settlement cases, patent validation is as important as a large cash infusion. Once the patent has been validated as a result of a settlement, other companies become more willing to settle because it becomes less likely they can continue to use the patent for free. Also, future settlement value often increases because the patent holder now has real negotiation power. Remember, VirnetX was trading at \$1 a share until it had its patent validated in the Microsoft case which caused the shares to run up to \$40.

#### What is MGT worth today?

9/14/2016

Is MGT About To Receive A Big Settlement? - MGT Capital Investments Inc (NYSEMKT:MGT) | Seeking Alpha

MGT is tremendously undervalued right now, which significantly limits the short-term risk. This is a \$16 million company with \$5 million in cash, that could potentially receive \$4.5 billion in settlements. In my opinion, MGT should currently be valued at over \$30 million, in line with Internet Patents Corporation (PTNT), and Worlds Incorporated (OTCQB:WDDD) \$30 million valuations.

#### What's the risk?

The long-term risk is that MGT goes to trial and loses against all defendants. While I don't think that will happen, it is a possibility. The most likely scenario is that MGT wins some of the cases, and loses others which still should translate into significant MGT share price appreciation.

#### Conclusion

In my opinion, a settlement between WMS and MGT appears inevitable. Given the recent increase in volume, it's possible that settlement talks are going on right now. But if I'm wrong, and another catalyst (Markman date, new patent acquisition, settlement with one of the other defendants) is bringing in buyers, a WMS settlement still appears likely within the next couple of months. Remember, the WMS/Scientific Games deal is supposed to be concluded this year.

But perhaps the most important part of a settlement with WMS would be patent validation which should lead to more lucrative settlements with the other defendants. If MGT is able to obtain reasonable settlements from the other defendants, MGT shares could be trading well above \$40. I have been aggressively buying at these levels in anticipation of a potential short-term 2X return.

For complete disclaimer and disclosure information please [click here](#).

**Disclosure:** I am long MGT, PTNT. I wrote this article myself, and it expresses my own opinions. I am not receiving compensation for it (other than from Seeking Alpha). I have no business relationship with any company whose stock is mentioned in this article.

## Comments (21)

### Fincher

There is no rush in investing in these types of companies prior to any achievements: just look at VRNG: they already won vs google which is huge! but where is the share price? similar to MGT: once the settlement talks begin the share price will jump significantly: then the only logical step for the company will be to heavily dilute the shareholders to get much more shares out and raise monies for eventual future lawsuits. possible trading scenario: wait up until first dilution to consider these small patent plays. it is a bit safer to get in then, rather than risk monies now. just my opinion. one more thing: look at the vrng bagholders now: I almost dare to say that majority is heavily in red numbers since last autumn. again, no rush! at the moment I would definitely favor VRNG to MGT,definitely!

11 Apr 2013, 05:45 AM

### The Focused Stock Trader , Contributor

Great report.What do you think was the reason for the stock to trade the highest volume in its history?

11 Apr 2013, 07:54 AM

### PaleBrow

that was me buying!

11 Apr 2013, 10:23 AM

9/14/2016

Is MGT About To Receive A Big Settlement? - MGT Capital Investments Inc (NYSEMKT:MGT) | Seeking Alpha

**Pmony**

Also of note love the fact a top tier 1 patent law firm took MGT on a contingency basis, speaks volumes about the potential. CEO putting in over 2 million dollars of his own money owning 25% of MGT stock also sits well with me when insiders have their money on the line with investors. Almost impossible to find potential 10 baggers near cash on hand valuation as don't forget they should have medical patents sold very soon bringing in a few more million dollars.

11 Apr 2013, 08:15 AM

**Pat Dobbs**

I was interested until i saw you posting.

It must be a PUMP and DUMP.

11 Apr 2013, 03:51 PM

**Yorick**

So the point of this article is that we should infer that illegal insider trading is spurring volume? VRNG has this type of gain every time someone posts a rumor.

11 Apr 2013, 08:27 AM

**MGT realism**

WOW - another pumper article from John Ford that way overstates the value proposition. Here's what you need to do with the numbers from John to make them more accurate:

- 1) multiply by .55 to reflect the fact that MGT only holds a 55% interest in the IP and only receives 55% of any award
- 2) Multiply by .75 to account for 20-30% legal fees
- 3) Multiply by .30 to account for taxes

The accurate value of the awards John laid out then become:

\$20 million one time payment = \$1.24/share in cash

\$50 million one time payment = \$3.10/share in cash

\$100 million one time payment = \$6.21/share in cash

These are still good numbers, just not the outlandish numbers John published. The company currently has about \$2.00/share in cash and assets, not including the 088 patent. With the possibility of a deal with WMS valued at \$2-3, I could easily see this stock moving up to a \$4 -\$5 trading range in the coming weeks.

If investors want to buy into the hype of "billion \$ awards with no further dilution", or "treble damages" which have never been paid on an IP lawsuit over \$100 million, then maybe the stock will trade higher. That would be a good time to start a short position.

11 Apr 2013, 09:41 AM

**MGT realism**

Please note that "3)" above should read "multiply by .7 to account for 30% in taxes

9/14/2016

Is MGT About To Receive A Big Settlement? - MGT Capital Investments Inc (NYSEMKT:MGT) | Seeking Alpha

11 Apr 2013, 09:51 AM

**in4thelonghaul**

Excellent Retort MGTRéalism.

Gotta watch these pumpers on SA with their very selective presentations!

11 Apr 2013, 11:28 AM

**John H. Ford , Contributor**

Author's reply » Thank you for your comments. You bring up some excellent points, and I agree with much of your analysis. From that perspective, my estimates should be reduced.

However, I believe the following 3 factors more than compensate for any reduction of estimates:

Number 1: once MGT receives its first settlement I anticipate a share price multiple, as was the case with VirnetX. VirnetX received a 20X to 40X multiple from its pre-settlement one dollar shareprice. While I do not expect to see a multiple of that magnitude for MGT, even if MGT were to receive a 2X multiple, investors would be well rewarded. This is an unknown factor, and the multiple could be 2X, or 20X. When VirnetX was trading at one dollar, very few investors believed it would ever hit \$40.

Number 2: as I mentioned in the article, I took the ultraconservative route of applying cash directly to share price appreciation, as opposed to using a PE multiple. Even if we applied an unrealistically low PE of 2, estimates could be doubled.

Number 3: Taxes will be unusually low for MGT because it is allowed \$18.7 million in federal U.S. carry-forward tax losses, plus \$2.3 million in state carry-forward tax losses. These carry-forwards are the result of the years of prior losses. So depending on the size of the settlement, MGT could pay \$0 in tax on settlement. If the settlement is large enough, it will pay tax above what it is allowed to deduct for its carry-forward tax losses, but at that point it becomes irrelevant, because a large settlement will be nirvana for investors.

Ultimately this all comes down to whether or not I am right about a possible settlement in the near future. If I'm right, and MGT receives a fair settlement, I believe investors will see at least a 2X return.

12 Apr 2013, 12:44 PM

**jd7**

Nice article, but please don't forget about dilution in your estimates. There are 4,038,753 warrants with a weighted average exercise price of \$3.68 (page F19 of latest 10K). Surely most of these will be exercised.

11 Apr 2013, 09:43 AM

**John H. Ford , Contributor**

Author's reply » Thank you for bringing that up. You are correct, there are 4 million warrants with an exercise price of \$3.64 per share, which if exercised would add \$14.5 million in cash to MGT's balance

9/14/2016

Is MGT About To Receive A Big Settlement? - MGT Capital Investments Inc (NYSEMKT:MGT) | Seeking Alpha

sheet. Some investors will see a tripling of the company's cash position as a more important factor than the dilution it imposes. Others will focus on the dilution, however even with a future share count of 8.6 million, the company's market capitalization is still extremely low relative to the potential settlements.

12 Apr 2013, 12:33 PM

**in4thelonghaul**

John - Appears you left out some pretty important information mate?

Any comments in response to 'MGTreality' s comment??

Well John? John??

11 Apr 2013, 11:43 AM

**Dennis R. Mahon**

Why doesn't one of the companies being sued be MGT just go ahead and buy MGT ? I guess MGT only owns 55% of the patents... so the other 45% would still be a problem... but if all the companies being sued bought up MGT and the other patent holders... it's over. Or... maybe that's not legal...

Drank the Kool-aid... long MGT.

11 Apr 2013, 01:13 PM

**vitosoranno1**

Who owns the other 45% of the patents????

15 Apr 2013, 05:18 PM

**Dennis R. Mahon**

The other 45% is retained by the original patent holder, the inventor.

16 Apr 2013, 09:01 AM

**Maria Auziliadora**

long MGT and VRNG MGT volume has been quite heavy hmm interesting

12 Apr 2013, 11:59 AM

**Maria Auziliadora**

MGT moving higher hmm

15 Apr 2013, 09:30 AM

9/14/2016

Is MGT About To Receive A Big Settlement? - MGT Capital Investments Inc (NYSEMKT:MGT) | Seeking Alpha

**elguapo12**

Forbes published a story yesterday on the movement from last week causing it to jump at open. It is already way off high of the day.

15 Apr 2013, 10:13 AM

**Maria Auziliadora**

Not wonder is moving thank you

15 Apr 2013, 10:15 AM

**John H. Ford , Contributor**

Author's reply » I have made some changes in this article to improve its accuracy and simplicity. Thank you Seeking Alpha readers for helping me to make this a better article.

15 Apr 2013, 03:36 PM